

Summary of Legislative Republican Single Business Tax Proposal



**Prepared by
Senate Fiscal Agency**

December 6, 2005

Legislative Republican Single Business Tax Proposal

This package of bills would provide single business tax reductions for industrial manufacturing and high technology firms. These proposed tax reductions would be provided through two new personal property tax credits. In addition, this package of bills would also extend a current tax break designed to help large spin-off companies such as Delphi and Visteon. Collectively, these bills would reduce single business tax revenue by an estimated \$582.0 million over the next five years. Each of these bills is described below and their estimated fiscal impact, by year, is also presented. All of these bills are tie-barred.

15% Industrial Personal Property Tax Credit: Senate Bill 909 (S-1), House Bill 4982, House Bill 5460, and House Bill 5461

These bills would create a new single business tax credit equal to 15.0% of the property taxes paid on industrial personal property. The credit would be available in 2006 (H.B. 4982), 2007 (S.B. 909), 2008 (H.B. 5461), and 2009 (H.B. 5460). The credit would not be available after 2009, because under current law, the single business tax expires January 1, 2010. This credit would be refundable, which means that not only would it reduce a business' single business tax liability, but if the credit exceeds a business' tax liability the difference would be refunded to the taxpayer or if a business has no single business tax liability, the entire amount of the credit would be refunded to the business.

Transferred Jobs Personal Property Tax Credit: Senate Bill 910 (S-1) and House Bill 5459

Senate Bill 910 would create a new credit against the single business tax equal to 100% of the personal property taxes paid on personal property new to Michigan used directly by workers transferred to Michigan from other states or countries. This credit could only be claimed during the first year that the taxpayer pays property taxes on the personal property being used by the transferred workers and would only be available for taxes paid in 2007 or 2008; however, under H.B. 5459 a business could claim this credit in 2009 if they reach an agreement with Michigan Economic Development Corporation. If the transferred jobs are not maintained for three years, then the taxpayer must repay at least a portion of the original tax credit as follows: 1) if the jobs are not maintained during the initial year, then 100% of the credit would be lost; 2) if the jobs are maintained during the initial year but not during the second year, then 67.0% of the credit would be lost; and 3) if the jobs are maintained during the first two years but not during the third year, 33.0% of the credit would be lost. This credit would apply to jobs and personal property directly being used for high-technology and manufacturing activity and could only be used to offset a business' single business tax liability (not a refundable credit).

Extending Current Delphi/Visteon Special Tax Break: Senate Bill 203 (S-1)

This bill would extend a special tax break originally enacted in 1999 that is designed to reduce the single business tax liability for large spin-off companies such as Delphi and Visteon. Under current law, a spin-off company would be able to exclude sales they make to a company that was originally part of the combined or consolidated business group prior to the spin-off restructuring when calculating the sales factor. This creates a smaller sales factor, which reduces their Michigan tax base and their single business tax liability. Under current law, qualifying firms may use this special sales factor calculation for an initial five years, as long as the company invests at least \$500.0 million in new capital investment in Michigan during those five years. This special tax provision is then available to qualifying businesses for another two years, but another \$200.0 million in new capital investment would have to be made. This bill

would extend this special tax provision for an additional four years, for a total of 11 years, as long as a qualifying business does one of the following three investment scenarios: 1) invest another \$200.0 million in new capital equipment and maintain at least 80.0% of the full time equivalent jobs they had at the beginning of the new four-year period; 2) invest an additional \$400.0 million in new capital during the new four-year period, or: 3) invest a total of \$1.3 billion during the entire 11-year period following the spin-off restructuring. This bill also includes provisions that would require a business to file amended tax returns and subsequently repay the tax breaks claimed during the period from year eight through year 11 of this overall agreement if it is determined that they did not comply with the investment requirements.

Fiscal Impact

The following table summarizes the estimated fiscal impact of these bills. In their current form, the proposed new single business tax credits equal to 15.0% of the personal property taxes paid on industrial personal property and the 100% credit on personal property taxes paid on new personal property being used by workers transferred to Michigan, would reduce single business tax revenue an estimated \$582.0 million from FY 2005-06 through FY 2009-2010. All of this loss in revenue would have an impact on the General Fund/General Purpose budget and would not have any direct impact on local governments. It is not known how much the existing tax break provided to large spin-off companies is currently reducing single business tax revenue because the Department of Treasury is not allowed to release this information due to taxpayer confidentiality constraints, so no estimate is possible at this time for the potential impact of extending this credit as proposed in Senate Bill 203.

Estimated Fiscal Impact: Business Tax Relief Proposal (Millions of Dollars)						
Proposed New SBT Tax Credits	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	Total
Industrial Personal Property Tax 15% Credit ¹⁾	(\$100.0)	(\$120.0)	(\$123.0)	(\$126.0)	(\$63.0)	(\$532.0)
Transferred Jobs Personal Property Tax 100% Credit ²⁾	0.0	(20.0)	(20.0)	(10.0)	0.0	(50.0)
Total	(\$100.0)	(\$140.0)	(\$143.0)	(\$136.0)	(\$63.0)	(\$582.0)
¹⁾ S.B. 909 and H.B.s 4982, 5460, and 5461						
²⁾ S.B. 910 and H.B. 5459						